

Moody's Agrees to Settlement With States and Federal Government Over Securities Ratings

States, USD0J Alleged Moody's Inflated Ratings and Contributed To Market Crash.

Attorney General Matt Denn joined the U.S. Department of Justice and 20 other attorneys general in announcing a settlement resolving an investigation into Moody's Corporation, Moody's Investors Service, Inc., and Moody's Analytics, Inc. (collectively "Moody's") over the companies' misrepresentations regarding the independence and objectivity of its ratings of structured finance securities, securities which contributed to the 2008 market crash and economic recession that followed.

The settlement includes required business reforms by Moody's and payments totaling \$863 million to the federal government and states.

The residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs) examined in this investigation are structured finance securities that derive their value from the monthly payments consumers make on their mortgages. Despite repeated statements emphasizing its independence and objectivity, Moody's allowed its analysis to be influenced by its desire to earn lucrative fees from its investment bank clients, and assigned inflated credit ratings to toxic assets packaged and sold by the Wall Street investment banks. This alleged misconduct began as early as 2001, and became particularly acute between 2004 and 2007. These securities, particularly those backed by subprime

mortgages, were at the center of the financial crisis. The state does not allege that Moody's committed any wrongdoing against any individual homeowner with respect to a mortgage.

Moody's represented to consumers that its Aaa rating carried a specific level of risk, and the investigation found evidence that Moody's altered its process so that the Aaa rating with respect to certain structured finance securities represented a greater risk than Moody's disclosed to investors and consumers. Delaware's investigation found evidence that Moody's deviated from certain of its published methodologies related to its rating of structured finance securities through the end of 2013. The investigation also found evidence that Moody's gave in to pressure from big banks, which were powerful, repeat customers that paid Moody's millions of dollars to rate these securities. The banks needed Aaa ratings in order to sell these securities to institutional investors, such as pension plans and retirement plans.

In addition to the monetary settlement, Moody's has agreed to a detailed statement of facts in connection with the way it rated RMBS and CDOs leading up to the financial crisis, and significant compliance terms – including an annual certification by the CEO of Moody's Corporation, which will be provided to the settling states every year for the next four years, certifying that Moody's is following certain compliance requirements. Delaware's share of the financial component of the settlement is \$6,768,533.

Delaware was represented by Deputy Attorneys General Matthew Lintner, Gregory Strong, and Jillian Lazar in this matter.

Read the U.S. Department of Justice press release, which includes links to the settlement documents, [here](#).